Trends in Michigan local government fiscal health

Presented at the Federal Reserve Bank of Chicago Detroit Branch
October 06, 2014
Michigan ranks 7th in the number of general purpose local governments (1,856):

- 83 counties
- 256 villages
- 277 cities
- 1,240 townships.
The Michigan Public Policy Survey

- **Census survey** – all 1,856 counties, cities, villages, and townships
- **Respondents** – chief elected and appointed officials
- **Administered** – online and via hardcopy
- **Timing** – Spring and Fall each year
- **Topics** – wide range, such as fiscal health, budget priorities, economic development, intergovernmental cooperation, privatization, employee policies, labor unions, state relations, energy, environmental sustainability, Great Lakes, citizen engagement, bankruptcy, much more.
# The Michigan Public Policy Survey

## Differences between MPPS and administrative sources like F-65

<table>
<thead>
<tr>
<th>MPPS</th>
<th>“F-65” Data</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
<td><strong>Cons</strong></td>
</tr>
<tr>
<td>73% response rate, by jurisdiction</td>
<td>Data are opinion-based</td>
</tr>
<tr>
<td>Data available quickly</td>
<td>Not all jurisdictions submit data</td>
</tr>
<tr>
<td>Responses submitted by high level officials</td>
<td>Data best analyzed at a broad level, as opposed to fine-grained (e.g. “property tax revenue is decreasing somewhat” instead of “decreasing by x%”)</td>
</tr>
<tr>
<td>Includes questions about future expectations</td>
<td>Respondent confidentiality means we cannot identify specific responses for specific jurisdictions</td>
</tr>
<tr>
<td>Broad range of policy topics covered</td>
<td>Delays in data availability</td>
</tr>
<tr>
<td>Most jurisdictions submit data</td>
<td>Not all jurisdictions submit data as required; and some submit only every other year</td>
</tr>
<tr>
<td>Data are “factual” as opposed to being based on opinions. For example, can analyze property tax revenue increase/decrease by specific percentages.</td>
<td>Significant data errors (data are not “clean”)</td>
</tr>
<tr>
<td>No need to protect confidentiality, therefore these data can identify specific jurisdictions’ responses</td>
<td>Forms may be interpreted differently by different submitters, resulting in “apples vs. oranges” data</td>
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</table>
Presentation Outline

- Findings on fiscal trends and budgetary health from the 2009-2014 Waves of the MPPS
  - Fiscal challenges; how jurisdictions have responded
  - Fiscal health status today; changes since 2009
  - Looking ahead
Fiscal Challenges: Declining Revenues and Rising Costs
A Decade of Funding Cuts

State revenue sharing cuts

[Graph showing state revenue sharing cuts over the years, with lines for inflation, actual, and full funding.]
A Decade of Funding Cuts

State revenue sharing cuts

$6.2 B
Declining Revenues

% of jurisdictions with declining state aid
Declining Revenues

% of jurisdictions with declining property tax revenues

![Bar chart showing the percentage of jurisdictions with declining property tax revenues by population size from 2009 to 2014.](image)
Declining Revenues

% of jurisdictions with increasing home foreclosures
Rising Costs

% of jurisdictions with rising health care costs for current employees

![Graph showing the percentage of jurisdictions with rising health care costs by population size from 2009 to 2014.]
Rising Costs

% of jurisdictions with rising pension costs

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</thead>
<tbody>
<tr>
<td>&lt; 1500</td>
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<tr>
<td>1500-5000</td>
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<td>5001-10000</td>
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<td>10001-30000</td>
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<tr>
<td>&gt; 30000</td>
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</tbody>
</table>
Rising Service Demands

% of jurisdictions with increasing infrastructure needs

Population Size

- < 1500
- 1500-5000
- 5001-10000
- 10001-30000
- > 30000
How Jurisdictions Have Responded to Fiscal Challenges
Government Actions

% of jurisdictions increasing reliance on GF balance

Population Size

- < 1500
- 1500-5000
- 5001-10000
- 10001-30000
- > 30000

2009 2010 2011 2012 2013 2014
Government Actions

% of jurisdictions cutting staff levels

Population Size

< 1500  1500-5000  5001-10000  10001-30000  > 30000

2009  2010  2011  2012  2013  2014
Government Actions

% of jurisdictions shifting healthcare costs to employees
Government Actions

% of jurisdictions cutting service levels

[Bar chart showing the percentage of jurisdictions cutting service levels by population size from 2009 to 2014.]
Government Actions

% of jurisdictions increasing debt

Population Size

- < 1500
- 1500-5000
- 5001-10000
- 10001-30000
- > 30000
Result:
Despite Challenges,
Gradual Easing of Fiscal Stress
General Fund Balance Status

% of jurisdictions in 2014 that say **general fund balance** is too low
Cash Flow Status

% of jurisdictions in 2014 that say **cash flow** is a problem

![Chart showing cash flow status by population size](chart.png)
Slowly Improving Fiscal Health

% of jurisdictions **better or less able** to meet fiscal needs
Spread and Easing of Fiscal Problems

Net fiscal health yearly change: % of jurisdictions reporting improving fiscal health minus % reporting declining health, by county.
Looking Ahead:
Plans for the Coming Year
Plans Going Forward

% of jurisdictions planning to increase employees’ share of contributions to health insurance

- 2009
- 2010
- 2011
- 2012
- 2013
- 2014

Population Size

- <1,500
- 1,500-5,000
- 5,001-10,000
- 10,001-30,000
- >30,000
Plans Going Forward

% of jurisdictions planning to increase inter-gov’t cooperation

![Bar chart showing percentage of jurisdictions planning to increase inter-government cooperation across different population sizes from 2009 to 2014. The chart shows an increasing trend from 2009 to 2014 for all population size categories, with the highest percentage for jurisdictions with a population of >30000.](chart.png)
% of jurisdictions planning to increase infrastructure spending

Population Size

- 2009
- 2010
- 2011
- 2012
- 2013
- 2014

- <1,500
- 1,500-5,000
- 5,001-10,000
- 10,001-30,000
- >30,000
Plans Going Forward

% of jurisdictions planning increases in employee pay

![Graph showing the percentage of jurisdictions planning increases in employee pay across different population sizes from 2009 to 2014.](image-url)
Looking Ahead: Predictions about Future Fiscal Health
Forecast for Michigan communities

% of officials predicting good or bad times for their communities financially in 2015

![Bar chart showing percentage of officials predicting good or bad times for communities of different population sizes, with 30% for < 1500, 39% for 1500-5000, 51% for 5001-10000, 59% for 10001-30000, and 68% for > 30000.](chart.png)
Forecast for local governments

% of officials predicting their governments will be better or less able to meet fiscal needs in 2015

![Bar chart showing the percentage of officials predicting their governments will be better or less able to meet fiscal needs in 2015 by population size.](chart.png)
Concerns Going Forward

% of officials predicting they can maintain services in current system (2012)
Support for Funding Reform

% that believe significant reform is needed

<table>
<thead>
<tr>
<th>Population Size</th>
<th>Reform needed</th>
<th>Neutral</th>
<th>Reform not needed</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1500</td>
<td>52%</td>
<td>23%</td>
<td>17%</td>
<td>9%</td>
</tr>
<tr>
<td>1500-5000</td>
<td>56%</td>
<td>22%</td>
<td>16%</td>
<td>6%</td>
</tr>
<tr>
<td>5001-10000</td>
<td>61%</td>
<td>19%</td>
<td>17%</td>
<td>3%</td>
</tr>
<tr>
<td>10001-30000</td>
<td>70%</td>
<td>15%</td>
<td>14%</td>
<td>1%</td>
</tr>
<tr>
<td>&gt; 30000</td>
<td>77%</td>
<td>13%</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>
Michigan Local Government Fiscal Health Trends

Key Findings

• Long period of fiscal squeeze: falling revenues and rising costs.

• Local governments very active in responding: have largely preserved fiscal health and tried to protect services.

• As of 2014, 36% of Michigan jurisdictions say they are better able to meet their financial needs this year, but another 24% still say they are less able to do so. This is a significant improvement from the low point in 2010, when just 9% were better able, and 61% were less able.

• Local governments continue to pursue a variety of actions to improve their fiscal status, including shifting health care costs to employees. However, they are also able to spend more on increased employee pay and infrastructure spending.

• Looking to the future, more officials predict that their communities will have good times financially in the coming year (40%) than predict bad times (12%). Highest levels of optimism found in Michigan’s larger jurisdictions.
Future waves of the Michigan Public Policy Survey:

• Fall 2014: Roads, transit, and also ethics issues

• Other potential future survey topics:
  • Economic development
  • Aging demographic
  • Other infrastructure issues (water/sewer, IT, etc.)
The Michigan Public Policy Survey (MPPS)

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Email: closup-mpps@umich.edu
Twitter: @closup
## Jurisdictions Less Able vs. Better Able to Meet Fiscal Needs in 2014

<table>
<thead>
<tr>
<th>Category</th>
<th>Less Able to Meet Needs</th>
<th>Better Able to Meet Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Decreased</td>
<td>Increased</td>
</tr>
<tr>
<td>Revenue from property tax</td>
<td>63%</td>
<td>17%</td>
</tr>
<tr>
<td>Revenue from fees for services, licenses, transfers, etc.</td>
<td>31%</td>
<td>10%</td>
</tr>
<tr>
<td>Amount of debt</td>
<td>17%</td>
<td>21%</td>
</tr>
<tr>
<td>Amount of federal aid to jurisdiction</td>
<td>27%</td>
<td>5%</td>
</tr>
<tr>
<td>Amount of state aid to jurisdiction</td>
<td>38%</td>
<td>24%</td>
</tr>
<tr>
<td>Number of tax delinquencies</td>
<td>15%</td>
<td>36%</td>
</tr>
<tr>
<td>Home foreclosures in jurisdiction</td>
<td>24%</td>
<td>27%</td>
</tr>
<tr>
<td>Population in jurisdiction</td>
<td>28%</td>
<td>15%</td>
</tr>
<tr>
<td>Public safety needs</td>
<td>2%</td>
<td>37%</td>
</tr>
<tr>
<td>Infrastructure needs</td>
<td>4%</td>
<td>69%</td>
</tr>
<tr>
<td>Human service needs</td>
<td>2%</td>
<td>44%</td>
</tr>
<tr>
<td>General government operations needs</td>
<td>2%</td>
<td>52%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>15%</td>
<td>4%</td>
</tr>
<tr>
<td>Pay rates for employee wages and salaries</td>
<td>4%</td>
<td>44%</td>
</tr>
<tr>
<td>Cost of government employee pensions</td>
<td>2%</td>
<td>36%</td>
</tr>
<tr>
<td>Cost of current government employee health benefits</td>
<td>5%</td>
<td>69%</td>
</tr>
<tr>
<td>Cost of retired government employee health benefits</td>
<td>3%</td>
<td>51%</td>
</tr>
<tr>
<td>Jurisdiction’s General Fund balance</td>
<td>42%</td>
<td>44%</td>
</tr>
<tr>
<td>Jurisdiction’s cash flow</td>
<td>17%</td>
<td>81%</td>
</tr>
<tr>
<td>Too low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>About right</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Somewhat/salient problem</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not much/not a problem</td>
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